

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Annual Compliance Report, 2013

Docket No. ACR2013

CHAIRMAN'S INFORMATION REQUEST NO. 5

(Issued February 3, 2014)

To clarify the basis of the Postal Service's estimates in its FY 2013 Annual Compliance Report (ACR), filed December 27, 2013, the Postal Service is requested to provide written responses to the following questions. Answers should be provided to individual questions as soon as they are developed, but no later than February 11, 2014.

International Mail

1. The following question concerns the Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 product, which is comprised of a number of negotiated service agreements (NSAs) governing the entry of inbound letter-post. Please refer to the market dominant multi-service agreements that were the subject of Docket Nos. R2010-5, R2013-4 (Royal PostNL (Netherlands)); R2012-5 (Canada Post); R2013-3, R2012-4 (Hong Kong Post); R2011-7 (China Post); and R2012-2 (Australian Postal Corporation). See USPS-FY13-NP2, the Excel files "NSA Summary (Booked).xls" and "NSA Summary (Imputed).xls", worksheet tabs Summary.

In its Notices in the above-referenced dockets, the Postal Service asserts that the negotiated rates in each of the multi-service agreements "result[] in improvement over [the] default rates established under the Universal Postal

Union (UPU) Acts for inbound letter-post items.”¹ Please confirm that for the actual volumes entered pursuant to the referenced multi-service agreements during FY 2013, the negotiated rates improve the cost coverage of such agreements compared to the cost coverage at the UPU terminal dues rates. If not confirmed, please explain. Please identify in library reference USPS-FY13-NP2 (e.g., FY 2013 International Cost and Revenue Analysis (ICRA) report) the financial analysis relied upon by the Postal Service to support your response, or provide such financial analysis if not presented in the FY 2013 ICRA or elsewhere in the (ACR).

2. The following questions concern inbound Express Mail Service (EMS) and the Kahala Posts Group (KPG).
 - (a) Please identify the foreign postal operators that were members of the Kahala Posts Group during FY 2013, and which of those member posts entered inbound EMS into the U.S.
 - (b) Please confirm that during FY 2013, the EMS Cooperative Pay-for-Performance Plan was applicable to all KPG members identified in your response to subpart (a), above. If not confirmed, please identify KPG member posts were not subject to the EMS Cooperative Pay-for-Performance Plan and explain why the EMS Cooperative Pay-for-Performance Plan was not applicable to all KPG member posts.
 - (c) The KPG Strategic Services Agreement contains the conditions for date-certain delivery performance in which late delivery results in penalties in the form of a postage refund. See Response to CHIR No. 4, question 12(b), Docket No. ACR2012. Please provide any fiscal year, calendar year, and quarterly reports that measure the service performance of inbound EMS from KPG member posts with respect to late deliveries,

¹ For example, Docket No. R2012-2, Notice of United States Postal Service of Type 2 Rate Adjustment, and Notice of Filing Functionally Equivalent Agreement, October 14, 2011, at 1.

penalties and any other service performance metrics. If there are no such reports, please provide the number of late deliveries for which a postage refund was made and the total amount of such refunds in FY 2013 for each KPG member post.

- (d) Please identify where in library reference USPS-FY13-NP2 or elsewhere in the ACR that the FY 2013 “booked” and “imputed” financial results for inbound EMS entered by KPG member posts can be found, or provide such financial results if they are not presented in the FY 2013 ICRA or elsewhere in the ACR.
3. Inbound Air Parcel Post (at non-UPU rates) consists of financial results for Royal Mail and collectively for several European postal operators that have executed bilateral agreements pursuant to Annex B2 of the EPG agreement, which predates the PAEA. For FY 2013, the Booked version of the ICRA reports a loss for Inbound Air Parcel Post (at non-UPU rates) caused solely by the financial results of inbound air parcels from EPG postal operators. However, the FY 2013 loss is substantially less than the FY 2012 loss.

During FY 2013, the Postal Service implemented a “performance action plan” making operational improvements affecting EPG parcels to decrease penalty payments and increase revenue. See Response No. 4, Postal Service Responses to ACD Request, Docket No. ACR2012, June 26, 2013.

- (a) Please describe the features of the performance action plan, identify the operational improvements implemented, and explain how the improvements decreased penalty payments and increased revenues during FY 2013.
- (b) Please describe the conditions during FY 2013 that caused the Postal Service to make penalty payments, and explain whether penalty payments arose from the bilateral agreements executed pursuant to Annex B2 of the

EPG agreement, or obligations arising from other bilateral or multilateral agreements.

- (c) Please provide any fiscal year, calendar year, and quarterly reports that measure the service performance of inbound air parcels from EPG postal operators with respect to penalty payments and any other service performance metrics. If there are no such reports, please provide the total penalty payments and the number of delivery or other events that caused a penalty payment during FY 2013 and FY 2012.
- 4. The following question concerns the Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1 product. Please refer to the competitive multi-service agreement that is the subject of Docket No. CP2011-68 (China Post). See USPS-FY13-NP2, the Excel files “NSA Summary (Booked).xls” and “NSA Summary (Imputed).xls”, worksheet tabs Summary. Please explain why costs exceeded revenues for both the Booked and Imputed versions.
- 5. The following questions concern International Money Transfer Service (IMTS), which consists of an outbound and inbound product.
 - (a) The Postal Service reports that costs for the IMTS—Outbound product exceeded revenues in FY 2013. Refer to USPS-FY13-NP2, Excel files “Reports (Booked).xls” and “Reports.xls,” worksheet tabs A Pages (c), Tables A-2 in each file. Please identify and explain the factors that caused costs for the IMTS—Outbound product to exceed revenues.
 - (b) For FY 2013, no volume variable or product-specific costs are reported for the IMTS-Inbound product. See USPS-FY13-NP2, Excel files “Reports (Booked).xls” and “Reports.xls,” worksheet tabs A Pages (c), Tables A-2 in each file. Please explain the absence of FY 2013 volume variable and product-specific costs for the IMTS-Inbound product, and provide them if they are available.

- (c) For the combined IMTS—Outbound and IMTS—Inbound products during FY 2013, please provide the total number of In-Office Cost System (IOCS) tallies, the coefficient of variation (CV) for the IOCS-based cost estimate, and the 95 percent confidence interval for the cost coverage.
 - (d) The Postal Service maintains that the use of IOCS tallies to develop IMTS attributable costs is problematic. See Response No. 2, Postal Service Responses to ACD Request, Docket No. ACR2012, June 26, 2013. In the absence of IOCS tallies, to what extent could window service costs associated with cashing domestic money orders be used as a surrogate for the window service costs of cashing IMTS—Inbound money orders? In the response, please explain what adjustments (if any) to the window service costs of cashing domestic money orders would be needed to reflect any differences in the costs of cashing IMTS—Inbound money orders.
6. The following questions concern revenues and transaction volumes for the IMTS—Inbound product. In the FY 2012 Annual Compliance Determination (ACD), the Commission directed the Postal Service to report on the feasibility of using revenues received from foreign postal operators as a basis for estimating IMTS—Inbound transaction volumes. FY 2012 ACD at 166. The Commission requested that the Postal Service address this option as a possible alternative to using the Point of Sale (POS) retail terminal system for estimating IMTS—Inbound transaction volumes. In this regard, the Postal Service states that
- IMTS—Inbound revenue reported for this product represents the fees the Postal Service receives from certain foreign postal operators for cashing their inbound international money orders. In most cases, these fees are calculated on the basis of the face value of the money order and not on a per-item basis.

Response No. 2, Postal Service Responses to ACD Request, Docket No. ACR2012, June 26, 2013.

- (a) Please confirm that the “certain foreign postal operators” referred to in the quote above are Montserrat, St. Kitts, British Virgin Islands, Bahamas, Barbados, Japan, Peru, St. Vincent, Belize and Dominica. If not confirmed, please identify the foreign postal operators (and countries) to which the statement refers.
- (b) Please complete Table No. 1 (below) for international postal money orders cashed during FY 2013 at retail post offices outfitted with Point Of Service (POS) terminals (*i.e.*, POS-enabled) and retail post offices without POS terminals (*i.e.*, non-POS-enabled), by providing the following information:
 - (1) fee revenue provided by the foreign postal operators identified in response to subpart (a), above, that is calculated on the basis of the face value of the international money orders cashed, a per-item basis, and any other bases, and describe those other bases; and
 - (2) transaction volumes associated with the fee revenue.

Table No. 1
IMTS-Inbound Revenues and Transaction Volumes
By Revenue Methodology and Retail Postal Facility

International Postal Money Orders Cashed at Retail Postal Facilities					
Fee Revenue Methodology	With POS Terminals (POS-Enabled)		Without POS Terminals (non-POS-Enabled)		Grand Total
	<u>Fees</u>	<u>Volumes</u>	<u>Fees</u>	<u>Volumes</u>	<u>Fees</u> <u>Volumes</u>
	[a]	[b]	[c]	[d]	[a]+[c] [b]+[d]
Face Value					
Per Item					
Other Basis					
TOTAL	2		2		

- (c) Fee revenue received from foreign postal operators for international money orders cashed/redeemed with the Postal Service is reported in General Leger Account 43319, Money Order Fees—Commission for Redeeming International Foreign Issue. Library Reference USPS-FY13-NP5, FY 2013 ICRA Overview/Technical Description, Part II, Chapter 9 at 29. For POS-enabled and non-POS-enabled offices, please explain how and where various money order data, such as the number of money orders, face value of each money order, and the money order numbers, for each country of origin, from international money orders cashed/redeemed are recorded in the Postal Service's accounting, statistical or other data systems for purposes of reporting such data to each of the foreign postal operators identified in response to subpart (a), above.

7. The following question concerns the market dominant product Global Direct Entry with Foreign Postal Administrations. In Docket No. R2013-1, Notice of Market-Dominant Price Adjustment, the Postal Service added a handling charge for foreign origin, inbound direct entry First-Class Mail Machinable Single-Piece Letters, Single-Piece Postcards, Single-Piece Flats, and Single-Piece Parcels tendered by foreign postal operators, subject to the terms of an “authorization arrangement.” The handling charge took effect January 27, 2013.
- (a) Please identify the foreign postal operators that entered foreign origin, inbound direct entry items pursuant to an authorization arrangement during FY 2013.
 - (b) Prior to Commission regulation of market dominant products pursuant to the PAEA, the Postal Service concluded arrangements for Global Direct Entry with eight foreign postal operators. Please identify and explain whether any of the pre-PAEA arrangements were superseded by an authorization arrangement during FY 2013.
 - (c) Please refer to Library Reference USPS-FY13-NP2, Excel file “Reports (Booked).xls,” worksheet tab A Pages (c), Table A-2 and provide the financial results for Global Direct Entry with Foreign Postal Administrations shown in Table A-2 separately for foreign postal operators that entered Global Direct Entry items pursuant to pre-PAEA arrangements and authorization arrangements concluded during FY 2013.

Nonpostal Services

8. Please refer to the Preface to Library Reference USPS-FY13-NP27, which shows that costs exceeded revenue for Officially Licensed Retail Products (OLRP) in FY 2013.
- (a) Please explain why the OLRP did not cover attributable costs.
 - (b) Please identify specific causes for the 171 percent increase in costs from FY 2012.

- (c) Please provide a breakdown of the offerings included as OLRP.

First-Class Mail Workshare Discounts

- 9. Please refer to Library Reference USPS-FY13-3, USPS-FY13-3.Workshare[1].zip, workbook FY13.3.Worksharing Discount Table_Final.xlsm, tab “FCM Bulk Letters, Cards.”
 - (a) Please confirm that the Postal Service did not provide a calculation of workshare passthroughs for the First-Class Mail Automation AADC Letters and the First-Class Mail Automation AADC Cards categories. If not confirmed, please explain.
 - (b) If part (a) is confirmed, please provide passthrough calculations for First-Class Mail Automation AADC Letters and First-Class Mail Automation AADC Cards. [Note: Docket No. RM2012-6, which established a new benchmark for the calculation of workshare passthroughs for Automation 5-Digit Letters and Automation 5-Digit Cards, made no adjustments to the calculation of passthroughs for the AADC categories.]
 - (c) If either passthrough calculated in part (b) exceeds 100 percent, please identify an applicable exception in 39 U.S.C. § 3622(e)(2)(B) and provide a justification supporting the statutory exception.

Domestic Competitive Products

- 10. In Response to CHIR No. 2, question 3, the Postal Service explains that Parcel Select (non-NSA) unit costs increased in FY 2013 compared to FY 2012 due to increases in the costs for heavyweight Parcel Select, specifically increases in the Parcel Select Non-Presort category. The Postal Service further explains that it is likely that costlier former market dominant Parcel Post pieces have migrated to Parcel Select Nonpresort instead of the Standard Post product. Given this migration and the fact that Parcel Select (non-NSA) did not cover costs in FY

2013, please explain how the Postal Service plans to ensure that Parcel Select (non-NSA) revenues will cover attributable costs in future years.

Domestic Competitive NSA Products

11. The following questions refer to Parcel Select Contract 4 (Docket Nos. MC2013-46/CP2013-60), which appears to have not covered costs in FY 2013. The Postal Service explains that the transportation costs proxy used in the contract's costing model appears anomalous.
 - (a) Please explain if there are other reasonable proxies or adjustments that the Postal Service could use to identify unit transportation costs for Parcel Return Service Contract 4 and future Parcel Return Service Full Network NSAs.
 - (b) Please explain how the Postal Service will ensure that revenues for Parcel Return Service Contract 4 will cover costs in future fiscal years.
12. Please provide revenue, volume, weight, and attributable costs data for the following 24 competitive domestic NSA products similar to the data for other competitive domestic NSA products filed with Library Reference USPS-FY13-NP27. If the data are not available, please explain.

	Competitive Domestic NSA Product	MC Docket	CP Docket
1	Parcel Select Contract 7	MC2013-59	CP2013-80
2	Priority Mail Contract 7	MC2009-25	CP2009-31
3	Priority Mail Contract 13	MC2009-29	CP2009-39
4	Priority Mail Contract 14	MC2009-30	CP2009-40
5	Priority Mail Contract 20	MC2010-02	CP2010-2
6	Priority Mail Contract 21	MC2010-03	CP2010-3
7	Priority Mail Contract 22	MC2010-04	CP2010-4
8	Priority Mail Contract 26	MC2010-31	CP2010-76
9	Priority Mail Contract 32	MC2011-11	CP2011-47
10	Priority Mail Contract 35	MC2011-18	CP2011-57
11	Priority Mail Contract 36	MC2012-2	CP2012-6
12	Priority Mail Contract 47	MC2013-7	CP2013-7
13	Priority Mail Contract 54	MC2013-37	CP2013-48
14	Priority Mail Contract 56	MC2013-42	CP2013-55
15	Priority Mail Contract 58	MC2013-47	CP2013-61
16	Priority Mail Contract 61	MC2013-55	CP2013-73
17	Priority Mail Contract 62	MC2013-56	CP2013-74
18	Priority Mail Express Contract 6	MC2010-6	CP2010-6
19	Priority Mail Express Contract 7	MC2010-7	CP2010-7
20	Priority Mail Express Contract 9	MC2011-1	CP2011-2
21	Priority Mail Express Contract 10	MC2011-12	CP2011-48
22	Priority Mail Express and Priority Mail Contract 10	MC2012-54	CP2012-66
23	Priority Mail Express and Priority Mail Contract 14	MC2013-58	CP2013-79
24	Priority Mail Express, Priority Mail, & First-Class Package Service Contract 1	MC2012-46	CP2012-55

By the Chairman.

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